

Message Text

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ACTION EB-11

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 0325

INFO AMEMBASSY LONDON

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

LIMITED OFFICIAL USE NEW DELHI 3713

E.O. 11652: N/A

TAGS: ETRN IN

SUBJ: CIVAIR: JET FUEL COSTS

REF: (A) STATE 46124 NOTAL (B) STATE 51079 NOTAL

SUMMARY: STATE TAX ON JET FUEL IN BOMBAY IS HIGH, BUT PROBABLY NOT DISCRIMINATORY. HIGH BASE PRICE OF FUEL IS ALSO A MATTER OF CONCERN WHICH WE MIGHT WANT TO RAISE WITH GOI. END SUMMARY.

1. TWA GENERAL MANAGER IN INDIA, JULES GINDRAUX TOLD CONSUL GENERAL MARCH 13 IN BOMBAY THAT HE HAD NOT HEARD THAT AIRLINE CONSIDERING SUSPENSION OF SERVICES, AND APPEARED TO DISCOUNT THE IDEA. HE SEEMED INCLINED TO BELIEVE TWA "THINKING AHEAD" AND DOING SOME CONTINGENCY PLANNING. HE SAID HE WOULD BE ATTENDING A SCHEDULE CONFERENCE IN HONOLULU IN MAY AND WAS NOT AWARE OF ANYTHING TO SUGGEST THAT MAJOR MODIFICATION IN OFFING, AND THOUGHT IT HIGHLY UNLIKELY TWA WOULD SUSPEND SERVICE TO INDIA SINCE IT WOULD MEAN CUTTING OUT ITS ROUND-THE-WORLD SERVICE, WITH FLIGHTS TURNING AROUND AT TEL AVIV AND BANGKOK. HE CONCLUDED BY SAYING "TIME MIGHT COME" WHEN ECONOMIC FEASIBILITY WOULD HAVE TO BE EXAMINED, BUT

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INDICATED CLEARLY HE DOES NOT THINK THAT POINT YET REACHED.

2. EMBASSY CAN CONFIRM THAT DIFFERENCE BETWEEN PRICE TO ALL INTERNATIONAL CARRIERS OF ATF IN BOMBAY (RS. 2233.00 PER 1000 LITERS, \$1.062 PER GAL.) AND DELHI (RS. 1775.22, \$0.945 PER GAL.) ALMOST SOLELY ATTRIBUTABLE TO 30 PERCENT TAX IMPOSED BY MAHARASHTRA STATE GOVERNMENT. ACCORDING TO BOMBAY AIRLINES SOURCES, HIGH MAHARASHTRA TAX HAS LONG BEEN BONE OF CONTENTION BETWEEN AIRLINES AND STATE AUTHORITIES THERE.

3. IT DOES NOT APPEAR, HOWEVER, THAT TAX IS IMPOSED IN DISCRIMINATORY FASHION AMONG BUYERS OF FUEL IN BOMBAY. IT THUS DOES NOT SEEM TO US THAT TAX INVOLVES VIOLATION OF ARTICLE 5 (B) OF BILATERAL AIR SERVICES AGREEMENT. THERE IS AN UNINTENDED DISCRIMINATION IN THAT CARRIERS, -LIKE BOAC AND AIR-INDIA-WHICH OPERATE TO BOMBAY AS WELL AS OTHER POINTS IN INDIA MAY GAIN BY BEING ABLE TO SERVE BOMBAY WHILE PICKING UP FUEL ELSEWHERE. WE ASSUME, HOWEVER, THAT THIS PROBLEM IS PROBABLY NOT UNIQUE TO INDIA AND WE CANNOT ASSESS VALIDITY OF ANY ARGUMENT BASED ON IT.

4. BUT MAHARASHTRA TAX ASIDE, AND PERHAPS EVEN MORE IMPORTANT, QUESTION OF CURRENT VERY HIGH LEVEL OF ATF PRICE IN INDIA IS ONE THAT WE THINK MIGHT BE PURSUED WITH INDIAN OFFICIALS. STRAW THAT HAS STARTED BREAKING CAMEL'S BACK WAS GOI ANNOUNCEMENT ON ALL PETROLEUM PRODUCTS - OF INCREASE IN "BASIC CEILING SELLING PRICE" OF ATF OF RS. 633.42 PER 1000 LITERS. MARCH 1 INCREASE WAS LATEST SIX INCREASES SINCE JUNE 11, 1973 WHICH HAVE BROUGHT BASE PRICE OF ATF IN DELHI FROM RS. 335.74 TO TODAY'S RS. 1738.29 PER 1000 LITERS, AND ONLY SLIGHTLY LEASS IN BOMBAY. ABOUT RS. 650 WORTH OF THESE INCREASE DOES NOT ACCURE TO OIL COMAPNIES. THE RS. 650 IS RATHER, A SURCHARGE TO DISCOURAGE FUEL UPLIFT IN INDIA. INTERNATIONAL CARRIER, AID-INDIA, PAYS RS. 650 DIFFERENTIAL, AND LIKE OTHER INTERNATIONAL CARRIERS, DOES NOT PAY CENTRAL EXCISE DUTY OF ABOUT RS. 340 PER 1000 LITERS PAID BY DOMESTIC AIRLINE.

5. KNOWLEDGABLE BOAC OFFICIAL IN DELHI WHO HANDLES FUEL QUESTION FOR ORGANIZATION OF CARRIERS SERVING INDIA SAYS THAT AIRLINES HESITATE TO APPROACH GOI SIMPLY OR AS A GROUP ON PRICE QUESTION, FEARING THAT AN APPROACH COULD PRECIPITATE MANDTORY LIMITS ON FUEL UPLIFT IN PLACE OF VOLUNTARY PROGRAM CURRENTLY IN EFFECT (NEW DELHI LIMITED OFFICIAL USE

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15014, DEC 20, 1973). HE SAID THAT AT ONE POINT IT APPEARED THAT IATA CHARGES WORKING GROUP WAS PREPARED TO RAISE ISSUE WITH GOI, BUT THAT APPROACH NEVER MATERIALIZED. AT SAME TIME, HOWEVER, IDEA OF APPROACH THROUGH IATA CHARGES WORKING GROUP MAY STILL BE ALIVE. BOAC OFFICIALS SAID US CARRIERS INTERESTED IN EHECKING ON PROGRESS OF ISSUE COULD CONTACT CAPTAIN ARIES, BOAC ACCOUNTANT/ FLIGHT OPERATIONS IN LONDON WHO CHARIS IATA CHARGES WORKING GROUP.

6. EMBASSY HAS NO REASON TO EXPECT ANY REDUCTION SOON IN PRICE OF AVIATION FUEL, ALTHOUGH A DECISION BY ONE OR MORE FOREIGN CARRIERS TO SUSPEND SERVICE TO INDIA COULD POSSIBLY PRECIPITATE FEVIEW OF PRICE POLICY WITHIN GOI. WE RECALL THAT WHEN GOI WISHED IN DEC 1973 TO IMPOSE MANDATORY RESTRICTIONS ON FUEL UPLIFT, CARRIERS ARGUED THAT SUCH A MEASURE COULD CAUSE REDUCTION IN SCHEDULES WITH NEGATIVE IMPACT ON TOURIST TRADE AND EXPORTS. UPSHOT WAS THAT MANDATORY REDUCTION WAS NOT IMPOSED (NEW DELHI 15014, DEC 20, 973). TO EXTENT, HOWEVER, THAT OTHER CARRIERS CURRENTLY PLAN EXPAN- SION OF SERVIE, A TWA THREAT TO CUT SERVICES LOSES CREDIBILITY. PAN AM, FOR EXAMPLE, INTENDS TO EXPAND CURRENT SCHEDULE OF 14 WEEKLY SERVICES ADDING FOUR 707 SERVICES WEEKLY. PA AM IS BENEFICIARY OF LOWER DELHI FEL COSTS, HOWEVER, AND TWA MIGHT STILL MAKE STRONG CASE ON ECONOMIC GROUNDS FOR SUSPENSION OF THEIR SERVICE.

7. REF. (A) ASKED FOR EMBASSY ASSESSMENT OF IMPACT ON US INTERESTS SHOULD TWA DECIDE TO SUSPEND SERVICE. WHILE WE WOULD REGRET TWO PULLOUT IN GENERAL SENSE OF REDUCTION OF VISIBLE AND COMPETENT COMPONENT OF US PRESENCE IN INDIA, WE CAN THINK OF NO SIGNIFICANT REPERCUSSION SUCH DECISION MIGHT HAVE ON OFFICIAL US INTERESTS HERE. SEEMS TO US DECISION HAS TO BE MADE BY COMPANY ULTIMATELY ON COMMERCIAL CRITERIA.

8. IF, HOWEVER, DEPARTMENT CONSIDERS IT WOULD BE IN US INTEREST, EMBASSY WOULDAPPROACH GOI (MINISTRY OF PETROLEUM, CIVIL AVIATION DEPARTMENT, AND POSSIBLY MINISTRY OF TOURISM) TO POINT OUT THAT CURRENT FUEL PRICE LEVEL MAY FORCE TWA TO SUSPEND OPERATIONS HERE. WE WOULD HOPE INSTRUCTIONS FOR SUCH AN APPROACH WOULD INCLUDE ESTIMTE OF SERIOUSNESS OF TWA INTENT TO PULL OUT OF INDIA AND US JUDGMENT ON WHETHER RS. 650 SRCHARGE ON PRICE OF FUEL TO INTERNA- TIONAL CARRIERS HERE (INCOUDING AIR-INDIA) NOT PAID BY DOMETIC CONSUMERS CONSTITUTES OBJECTIONABLE DISCRIMINATION.

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